



City of Liberty Lake

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Quarterly Financial Report

First Quarter 2011

April 15, 2011

Overview

The Quarterly Financial Report provides a summary budget to actual comparison of revenues and expenditures for each fund through the end of the most recently completed fiscal quarter. The information contained in this report is prepared on a cash basis.

General Fund 001

Revenues

Revenue collections at the end of first quarter closely followed projections. General Fund revenues totaled \$948,057, or 19% of the total General Fund budget for the year.

Retail sales and use tax increased 6% compared to first quarter 2010. The increase is attributed to a onetime collection of retail sales tax revenue from a company located outside the city boundaries. Factoring this onetime collection out of the total retail sales tax revenue collected in first quarter, sales tax revenue would remain flat when compared with first quarter 2010.

On a positive note, the City experienced an increase in revenues related to building activities in the first quarter, compared to first quarter 2010. The City collected \$79,307 in building permit fees for first quarter, compared to \$67,474 collected in first quarter 2010 representing an 18% increase.

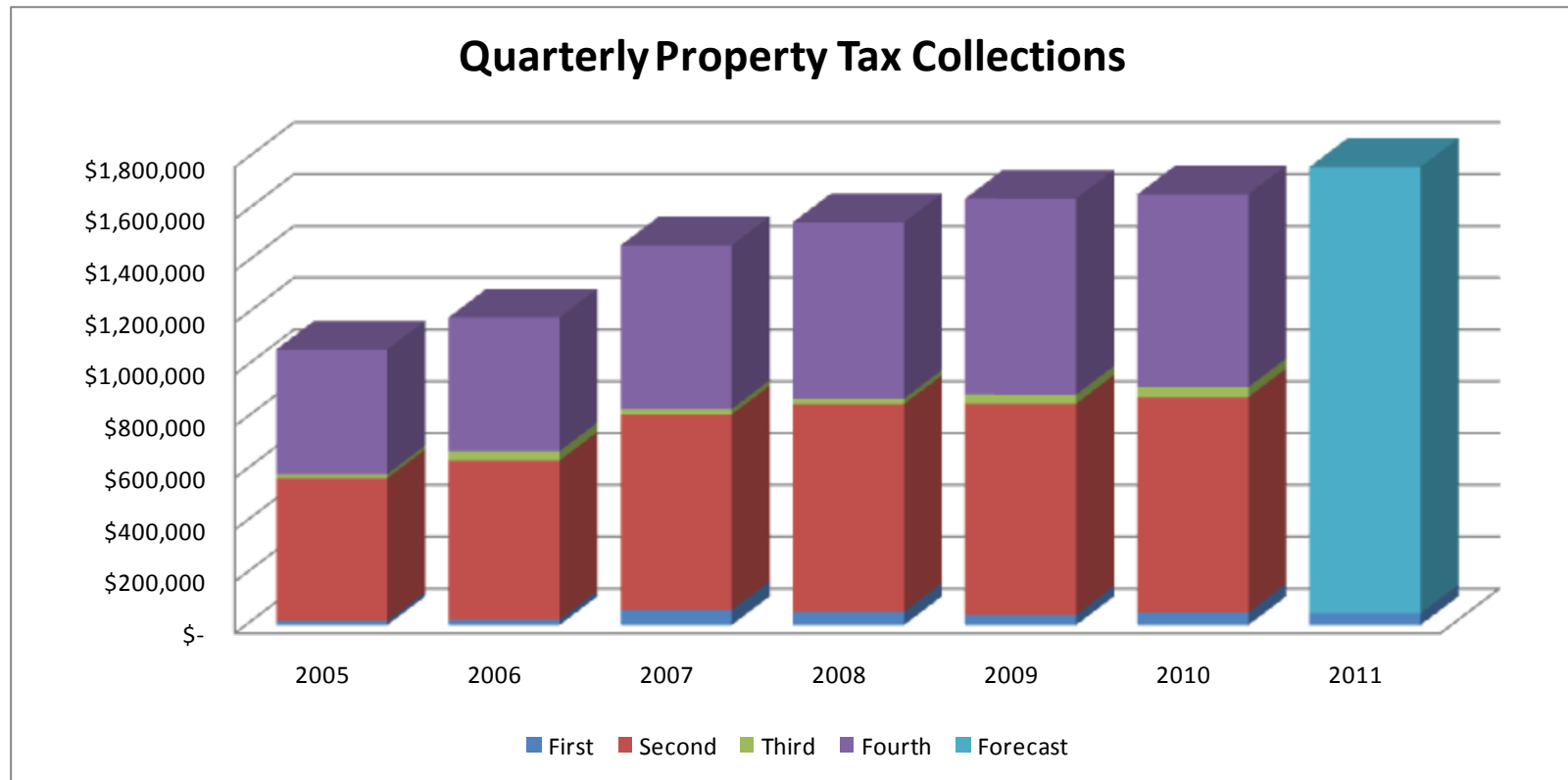
The following table shows budgeted and actual revenues from January 1 through March 31, 2010 and 2011. The table also shows the percentage of revenues utilized and the remaining uncollected balance through March 31, 2011.

General Fund 001: Revenues

Revenue Category	First Quarter Actuals		Projected		% of Revenues Collected through First Quarter		Remaining
	01/01/10 - 03/31/10	01/01/11 - 03/31/11	2010 Amended	2011	2010	2011	2011
Sales Tax	380,525	404,284	1,752,079	1,650,000	21.72%	24.50%	1,245,716
Property Tax	49,659	45,548	1,813,405	1,769,302	2.74%	2.57%	1,723,754
Utility Tax	-	215,023	-	825,000		26.06%	609,977
Other Taxes	43,548	44,118	207,104	204,650	21.03%	21.56%	160,532
Licenses and Permits	104,968	126,040	227,350	241,000	46.17%	52.30%	114,960
Intergovernmental Revenue	38,192	40,415	737,634	114,903	5.18%	35.17%	74,488
Charges for Services	22,880	30,492	91,000	86,500	25.14%	35.25%	56,008
Fines and Forfeitures	16,522	17,364	65,000	74,150	25.42%	23.42%	56,786
Miscellaneous Revenues	2,340	1,835	16,600	8,268	14.10%	22.19%	6,433
Subtotal	658,635	925,120	4,910,172	4,973,773	13.41%	18.60%	4,048,653
Non Revenue Sources	17,314	22,937	66,050	79,090	26.21%	29.00%	56,153
Total Revenues	675,949	948,057	4,976,222	5,052,863	13.58%	18.76%	4,104,806
Beginning Fund Balance on January 1st	1,305,372	1,466,753					

- **Taxes.** This category reflects the collection of sales and use taxes; property taxes; utility taxes; public safety; admissions taxes; and leasehold excise taxes.

Of the \$4.4 million projected, \$1.7 million is in the form of property tax. Property tax revenues are typically received during the second and fourth quarters of the year. For first quarter 2011 the City collected 2.57% of the property taxes projected. Total property tax collections through the first quarter of 2011 were \$45,548. The table below reflects quarterly property tax collections from 2005 to 2011.



The City experienced a 6% increase in retail sales tax revenue for first quarter 2011 compared to first quarter 2010. The increase can be attributed to a onetime collection of retail sales tax revenue in January from a company located outside the City boundary. Due to streamline sales tax, the City receives sales tax revenue from taxable purchases delivered within the City's boundary. Comparing 2010 with 2011 sales tax collections, most sectors increased over first quarter 2010 including construction with an increase of 26%. The City experienced a 5% decline in sales tax revenue collected from retail sales. This sector accounts for approximately 50% of all sales and use tax revenue collected.

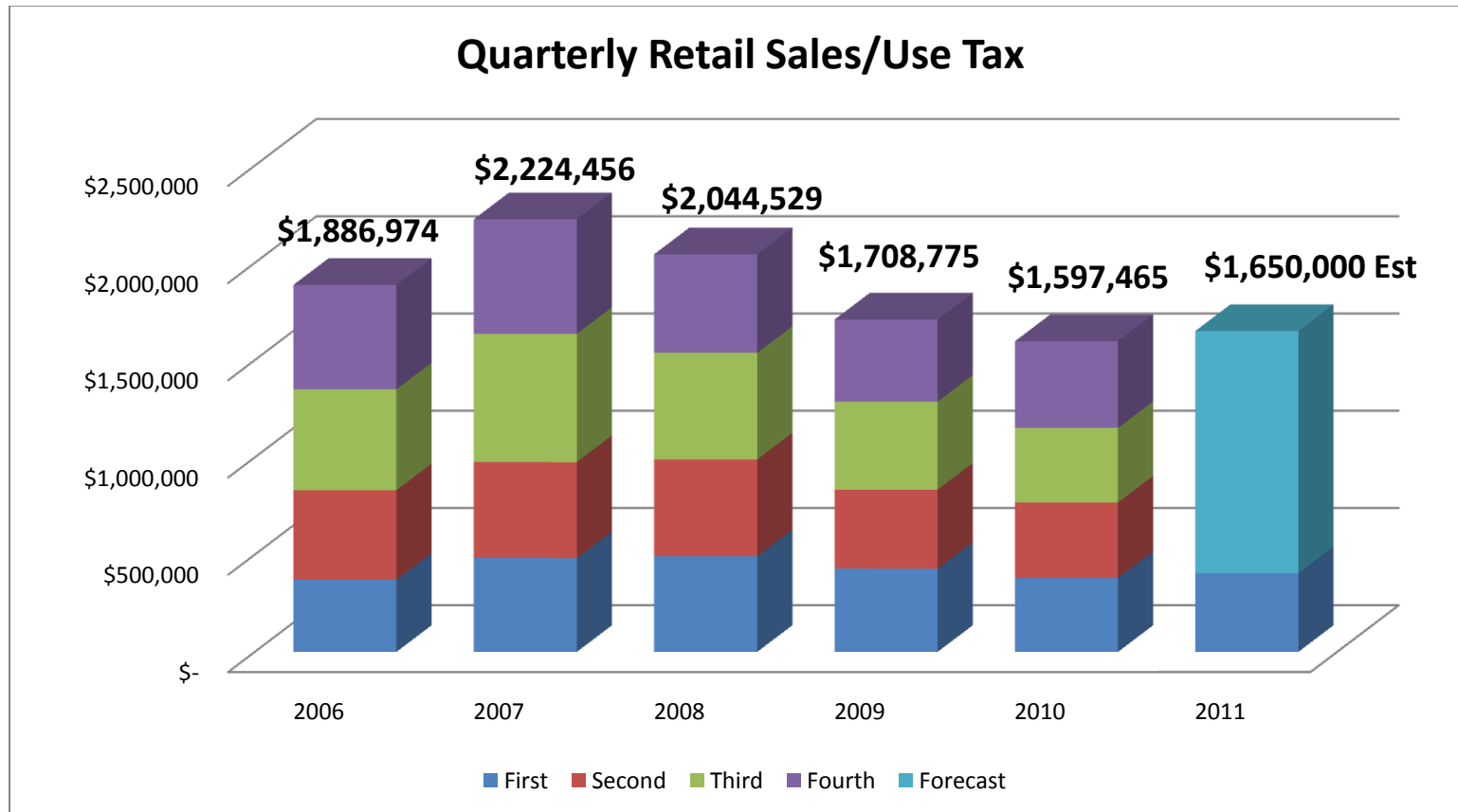
Sales tax collections fluctuate from quarter to quarter due to seasonal activity. The City typically receives more sales tax revenue in the second half of the year. The following table compares 2010 to 2011 sales tax revenue for first quarter and includes a breakdown by business sector.

FIRST QUARTER RETAIL SALES AND USE TAX

Business Sector	Revenue (Jan - Mar)		% Change	% of Total	
	2010	2011		2010	2011
Construction	\$ 35,373	\$ 44,624	26%	9%	11%
Manufacturing	\$ 14,978	\$ 12,813	-14%	4%	3%
Wholesale Trade	\$ 31,390	\$ 48,924	56%	8%	12%
Retail	\$ 208,602	\$ 198,771	-5%	55%	49%
Telecommunications & Other Information Services	\$ 16,933	\$ 17,612	4%	4%	4%
Finance, Insurance, Real Estate, & Administrative Support Services	\$ 34,948	\$ 40,224	15%	9%	10%
Accommodation and Food Service	\$ 24,976	\$ 25,516	2%	7%	6%
All Other Sectors	\$ 12,767	\$ 14,345	12%	3%	4%
Total	\$ 379,967	\$ 402,829	6%	100%	100%

Note: Totals for the quarter listed by sector may slightly differ from the retail sales tax revenue actually received due to adjustments made by the DOR between the time the detailed sales tax reports are received by the City and when the revenue is actually received.

The following chart displays the quarterly retail sales and use tax collected since 2006. Growth in taxable retail sales over the past several years has been fueled by new construction and real estate related sectors, which had significant growth between 2005 and 2007, however growth has slowed significantly following the economic downturn.



Business Sector Descriptions

Construction: The construction industry is divided into three major segments. The *construction of building* segment includes contractors, usually called general contractors, who build residential, industrial, commercial, and other buildings. *Heavy and civil engineering construction contractors* build sewers, roads, highways, bridges, tunnels, and other projects. *Specialty trade contractors* perform specialized activities related to construction such as carpentry, painting, plumbing, and electrical work.

Manufacturing: The establishments in these industries produce a variety of goods, some of which are sold to the consumer, while others are sold as inputs to the manufacture of other products. Goods manufactured include computers and electronics, cabinets, machinery and parts to name a few.

Wholesale Trade: When consumers purchase goods, they usually buy them from a retail establishment, such as a supermarket, department store, gas station, or Internet site. When businesses, government agencies, or institutions, such as universities or hospitals, need to purchase goods, they normally buy them from wholesale trade establishments. Retail establishments purchase goods for resale to consumers, but other establishments purchase equipment, motor vehicles, office supplies, or any other items for their own use. Customers of wholesale trade firms buy goods for use in making other products, as in the case of a bicycle manufacturer that purchases steel tubing, wire cables, and paint. Customers also may purchase items for use in the course of daily operations, as when a corporation buys office furniture, paper clips, or computers.

Retail: In the retail industry goods or commodities are sold usually in small quantities directly to consumers. Retailing includes the Internet, specialty stores, department stores, supermarkets, as well as auto, boat and RV dealers.

Telecommunications & Other Information Services: The telecommunications industry delivers voice communications, data, graphics, television, and video at ever increasing speeds and in an increasing number of ways. Whereas wireline telephone communication was once the primary service of the industry, wireless communication services, Internet service, and cable and satellite program distribution make up an increasing share of the industry.

Finance and Insurance, Real Estate, & Administrative and Support Services: This category is very diverse. Under finance and insurance it can include such subcategories as credit intermediation, securities and commodity contracts, funds, trusts and other financial services. Real estate could include general real estate and leasing services. Administrative and support includes general administrative and support services, as well as waste management and remediation services.

Accommodation and Food Service: This industry includes all types of lodging. While many provide simply a place to spend the night, others cater to longer stays by providing food service, recreational activities, and meeting rooms. Food services and drinking places

may be the world's most widespread and familiar industry. These establishments include all types of restaurants, from fast-food eateries to formal dining establishments.

All Other Sectors: This category represents sectors not represented by those listed above. In terms of sales and use tax revenue, this category represents a small percentage of the overall revenue collected. All other sectors could include mining, utilities, transportation and warehousing, educational services, ambulatory health care services, and unclassifiable.

- *Licenses and Permits.* This revenue source reflects the collection of business licenses; solicitor licenses; cable franchise fees; building permits; and state building code surcharges. Building permit fees and cable franchise fees constitute 91% of the revenue in this category. The City received 81 new business license applications for first quarter 2011 compared to 65 in 2010.
- *Intergovernmental.* Intergovernmental revenues are grants, entitlements, shared revenues and payments for goods and services provided by one government to another. Revenues in this category include state-distributed money to be used for criminal justice purposes; state distributed revenue to counties and cities for the cost of implementation of the DUI and other criminal justice statutes; state-distributed taxes on liquor sold at state liquor stores and agencies and on other retail sales of wine; state distributed mitigation payments as part of streamline sales tax; and lastly, state distribution of license and permit fees, penalties, forfeitures, and other income received by the Liquor Control Board.
- *Charges for Services.* Charges for Services are revenues generated from the rendering of services for a fee. Charges for services will vary from month to month due to the seasonal activities that take place throughout the year.
- *Fines and Forfeits.* Fines and forfeits revenues are received from traffic fines and infractions. Fines and forfeitures vary from month to month due to seasonal fluctuation.
- *Miscellaneous Revenues.* This category represents revenues derived from sources not otherwise provided for in other accounts. Miscellaneous revenues primarily reflect interest earned on investments; donations; and private grants awarded to the City.

Expenditures

Comparing total actual to total budgeted expenditures through the first quarter, the General Fund was 15% of the budget which does not include Non Expenditures. Expenditures for first quarter 2011 totaled \$699,783.

The Library was moved to the General Fund in 2011 due to a new statement initiated by the Governmental Accounting Standards Board (GASB) which puts additional restrictions on the use of special revenue funds. To comply with this new standard, the Liberty Lake City Council amended the 2010 budget to transfer the Municipal Library Fund 101 fund balance as of December 31, 2010 to the General Fund 001 and establish the Municipal Library in the General Fund. The Street Light Utility Fund 102 was also moved to the General Fund under General Fund 002 (see Other Funds tables).

The following table shows budgeted and actual expenditures through March 31, 2010 and 2011.

General Fund 001: Expenditures

Expenditure Category	First Quarter Actuals		Budget		% Expended through First Quarter		Remaining
	01/01/10 - 03/31/10	01/01/11 - 03/31/11	2010 Amended	2011	2010	2011	2011
General Government Services	176,346	93,006	1,850,355	1,412,689	9.53%	6.58%	1,319,683
Legislative	10,387	6,225	75,801	65,743	13.70%	9.47%	59,518
Municipal Court	5,322	10,140	152,440	145,000	3.49%	6.99%	134,861
Executive	4,579	3,307	64,311	62,829	7.12%	5.26%	59,522
Legal	8,422	8,000	48,000	48,000	17.55%	16.67%	40,000
Administrative Services	101,331	96,523	545,618	555,761	18.57%	17.37%	459,238
Law Enforcement	270,219	307,533	1,319,566	1,306,007	20.48%	23.55%	998,474
Planning and Building Services	79,350	59,857	350,593	284,148	22.63%	21.07%	224,291
Library (Moved to General Fund in 2011)	-	69,186	-	340,000		20.35%	270,814
Recreation	9,430	19,628	84,527	89,984	11.16%	21.81%	70,356
Parks	24,094	26,378	668,372	267,020	3.60%	9.88%	240,642
Subtotal	689,478	699,783	5,159,583	4,577,181	13.36%	15.29%	3,877,398
Non Expenditures	259	537	67,200	78,490	0.39%	0.68%	77,953
Total Expenditures	689,737	700,320	5,226,783	4,655,671	13.20%	15.04%	3,955,351

Other Fund Revenues

The majority of revenue collections in other funds were on track for the first quarter. Most funds in this category receive revenue through internal transfers from the General Fund 001 including Street Light Utility, Street, Restricted Reserve, Debt Service, Street Capital, Library Capital, and Unemployment. Other Fund Revenues totaled \$249,790 for first quarter 2011. Other Fund Revenues were 9% of the budget for the year.

Gas tax revenues in the Street Fund increased 2% when compared to first quarter 2010. Gas tax revenues totaled \$38,241 for first quarter 2011. This tax is tied to the number of gallons sold, not the price per gallon. The gas tax is collected at the state level and distributed to cities based on percent of population as compared with the State.

Tourism promotion funds (TPF & TPAF) increased 27% over first quarter 2010 and totaled \$9,912 for first quarter 2011. REET revenues increased 22% from first quarter 2010.

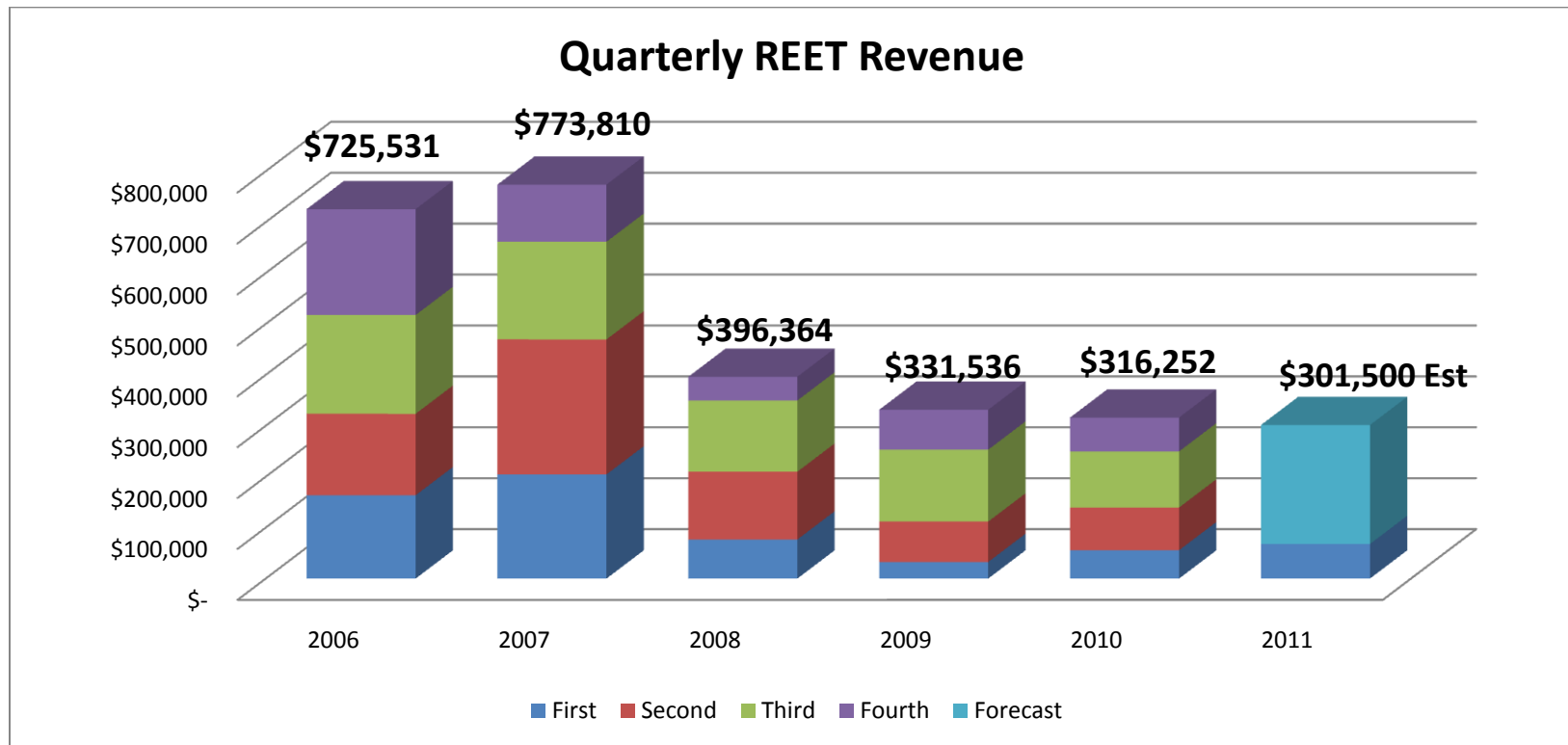
Revenue Category	First Quarter Actuals		Projected		% Collected through First Quarter		Remaining
	01/01/10 - 03/31/10	01/01/11 - 03/31/11	2010 Amended	2011	2010	2011	2011
Street Light Utility Fund 002	-	3,898	-	27,500		14.17%	23,602
Municipal Library	64,806	-	509,303	-	12.72%		
Street Light Utility Fund	1,960	-	25,000	-	7.84%		
Street Fund	89,325	68,443	851,147	880,726	10.49%	7.77%	812,283
Tourism Promotion Fund	4,765	5,755	36,970	30,400	12.89%	18.93%	24,645
Tourism Promotion Area Fund	3,149	4,231	22,274	25,050	14.14%	16.89%	20,819
Restricted Reserve Fund	499	696	8,000	3,300	6.24%	21.09%	2,604
G.O. Bond Debt Service	-	-	67,203	65,610	0.00%	0.00%	65,610
LTGO Redemption Note	42,003	42,003	168,112	168,112	24.99%	24.99%	126,109
City Land LTGO Bond Fund	-	-	161,520	161,521	0.00%	0.00%	161,521
Capital Projects Fund	29,053	34,295	151,000	150,750	19.24%	22.75%	116,455
Special Capital Projects Fund	26,686	33,523	151,000	150,750	17.67%	22.24%	117,227
Street Capital Projects Fund	312	342	177,808	550,700	0.18%	0.06%	550,358
Outlet Trail Project	6	6	75	100	8.57%	5.61%	94
Pedestrian/Bicycle Bridge Fund	4	3	50	100	7.12%	3.11%	97
Harvard Road Mitigation Fund	32,577	15,724	32,600	36,300	99.93%	43.32%	20,576
Library Capital Fund	2	6	106,936	25	0.00%	23.84%	19
City Hall LTGO Bond Fund	-	-	108,086	108,086	0.00%	0.00%	108,086
Stormwater Utility Fund	2,741	2,678	53,919	55,350	5.08%	4.84%	52,672
Golf Course	76,709	38,183	407,800	389,141	18.81%	9.81%	350,958
Unemployment Fund	7	4	39,100	40,030	0.02%	0.01%	40,026
Total Revenues	374,605	249,790	3,077,903	2,843,551	12.17%	8.78%	2,593,761
Beginning Fund Balance on January 1st	3,525,059	4,019,370					

- *Hotel/Motel Tax (Tourism Promotion Fund).* The Hotel/Motel Tax is derived from the sale or charge made for the furnishing of lodging by any hotel, motel, rooming house, tourist court, or trailer camp within the city limits of Liberty Lake for less than 30 consecutive days. In Spokane County, there must be 40 or more units for the tax to apply. The City levies a special excise tax of two percent.
- *Tourism Promotion Area (Tourism Promotion Area Fund).* The City established a tourism promotion area (TPA) that encompasses the entire City of Liberty Lake and has authorized lodging charges within the established area. Lodging businesses in the TPA that have 40 or more units must collect the lodging charge from persons who purchase lodging. The City receives \$1.00 per night of stay for lodging businesses with 40 or more units with lodging revenues exceeding five hundred thousand dollars during the preceding calendar year. The City receives \$.50 per night of stay for lodging businesses with 40 or more units with lodging revenues below five hundred thousand dollars during the preceding calendar year.
- *Restricted Reserve Fund.* The Restricted Reserve Fund is generally maintained at 15% of the General Fund's projected or actual, if known, operating revenues for the fiscal year. Policies for management and use of the Restricted Reserve Fund are laid out in City of Liberty Lake Ordinance No. 107-D.

- *REET (Capital Projects Fund & Special Capital Projects Fund).* Real Estate Excise Tax (REET) of one-quarter of one percent of the selling price is imposed on each sale of property in the City of Liberty Lake. The tax is deposited into the Capital Projects Fund and is restricted to fund any capital purpose identified in a capital improvement plan and local capital improvements including those listed in RCW 35.43.040.

There is an additional one-quarter of one percent on real estate sales within the city limits. According to state law, cities planning under GMA have the authority to levy a second quarter percent tax (REET 2). Funds from REET 2 are placed in a Special Capital Project Fund and used solely for financing capital projects as specified in a capital facilities plan element of the comprehensive plan.

REET collections have declined significantly since 2007 due to the economic downturn. On a positive note, first quarter REET revenues increased 22% in 2011 compared to 2010. The chart below demonstrates quarterly fluctuations in REET collections since 2006.



Other Fund Expenditures

Other fund expenditures typically followed the historic spending pattern. Comparing total actual to total budgeted expenditures through the first quarter, Other Fund Expenditures were 9% of the budget. Other Fund Expenditures totaled \$206,471 in first quarter 2011.

Expenditure Category	First Quarter Actuals		Budget		% Expended through First Quarter		Remaining
	01/01/10 - 03/31/10	01/01/11 - 03/31/11	2010 Amended	2011	2010	2011	2011
Street Light Utility Fund 002	-	3,898	-	27,500		14.17%	23,602
Municipal Library	94,134	-	469,934	-			
Street Light Utility Fund	1,959	-	25,000	-	7.84%		
Street Fund	85,525	121,277	896,682	818,213	9.54%	14.82%	696,936
Tourism Promotion Fund	-	-	60,000	60,000	0.00%	0.00%	60,000
Tourism Promotion Area Fund	-	-	22,274	28,050	0.00%	0.00%	28,050
Restricted Reserve Fund	160	-	1,200	-	13.33%		-
G.O. Bond Debt Service	-	-	67,203	65,610	0.00%	0.00%	65,610
LTGO Redemption Note	42,003	42,003	168,112	168,112	24.99%	24.99%	126,109
City Land LTGO Bond Fund	-	-	161,520	161,521	0.00%	0.00%	161,521
Capital Projects Fund	-	-	172,920	25,000	0.00%	0.00%	25,000
Special Capital Projects Fund	-	-	172,920	25,000	0.00%	0.00%	25,000
Street Capital Projects Fund	-	-	-	314,000		0.00%	314,000
Outlet Trail Project	-	-	-	9,790		0.00%	9,790
Pedestrian/Bicycle Bridge Fund	-	-	-	5,502		0.00%	5,502
Harvard Road Mitigation Fund	-	-	-	-			-
Library Capital Fund	-	-	-	-			-
City Hall LTGO Bond Fund	-	-	108,086	108,086	0.00%	0.00%	108,086
Stormwater Utility Fund	1,935	1,688	55,000	55,000	3.52%	3.07%	53,312
Golf Course	68,428	37,605	446,702	354,418	15.32%	10.61%	316,813
Unemployment Fund	3,342	-	39,000	40,000	8.57%	0.00%	40,000
Total Expenditures	297,486	206,471	2,866,553	2,265,802	10.38%	9.11%	2,059,331

Investment Summary

All investments of the City of Liberty Lake are made in compliance with Federal and State laws and in accordance with applicable legal interpretation. Primary objectives of the City of Liberty Lake investment activities are as follows:

1. Safety: Investments of the City are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. Liquidity: The City's investments remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.
3. Return on Investment: The City's investments are designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

The City complies with State statutory guidelines and the City's investment policies which limit the types of securities purchased. These consist of U.S. Treasury securities, federally-backed agency securities, and other relatively risk-free investments including the Washington State Local Government Investment Pool administered by the Washington State Treasurer's Office. The City does not leverage its portfolio nor does it invest in derivatives.

Market Conditions

The Federal Funds rate continued to remain near historical lows during the first quarter as the Federal Open Market Committee (FOMC) plans for the exit of these historical low rates. For the time being, it appears the FOMC will continue to hold rates low for an "extended" period of time.

Investments on 03/31/2011

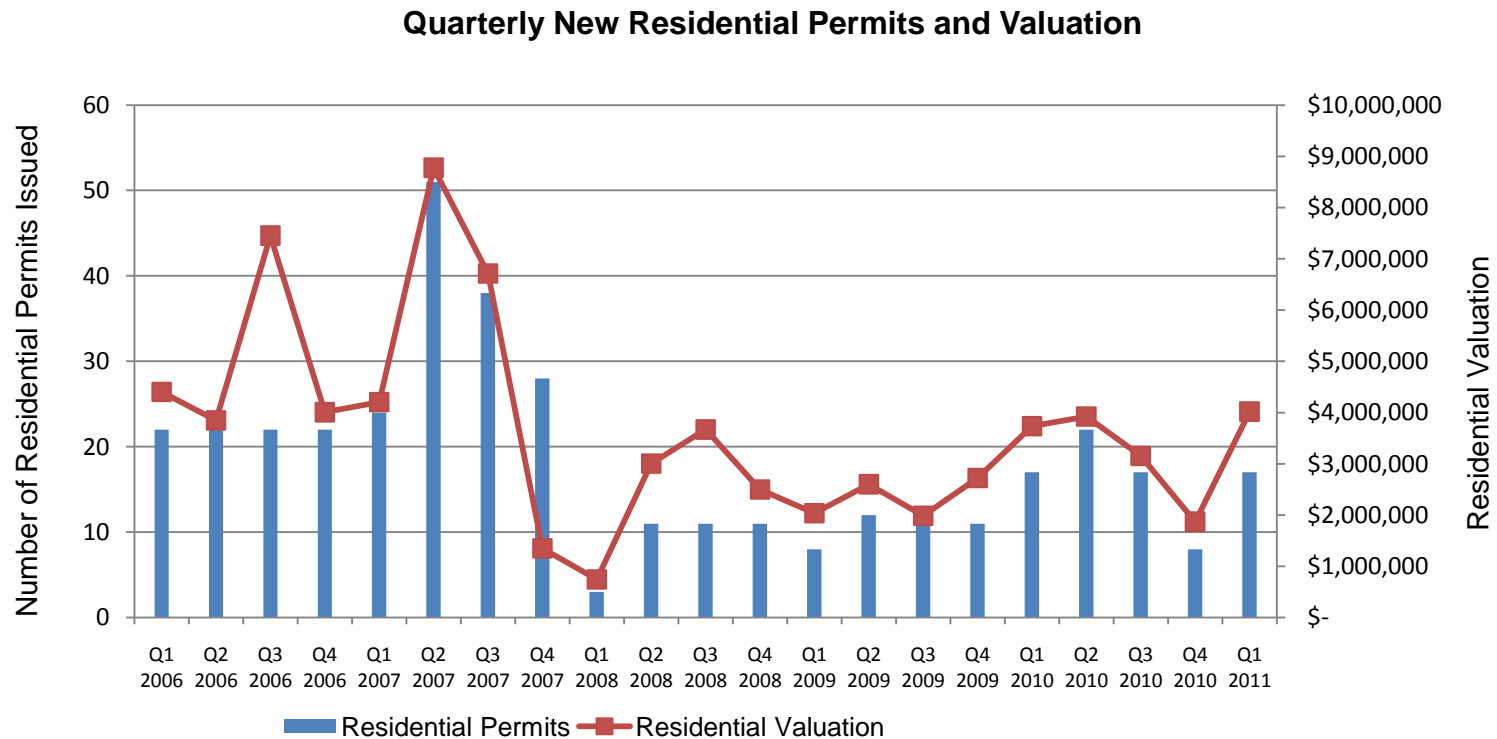
- Total Invested: \$5,337,441.01
- Total Interest Earnings for First Quarter 2011: \$2,914.37

Investment	Percent of Total Investments	Yield
Washington State Local Government Investment Pool (LGIP)	100%	.23%

Local Building Activity

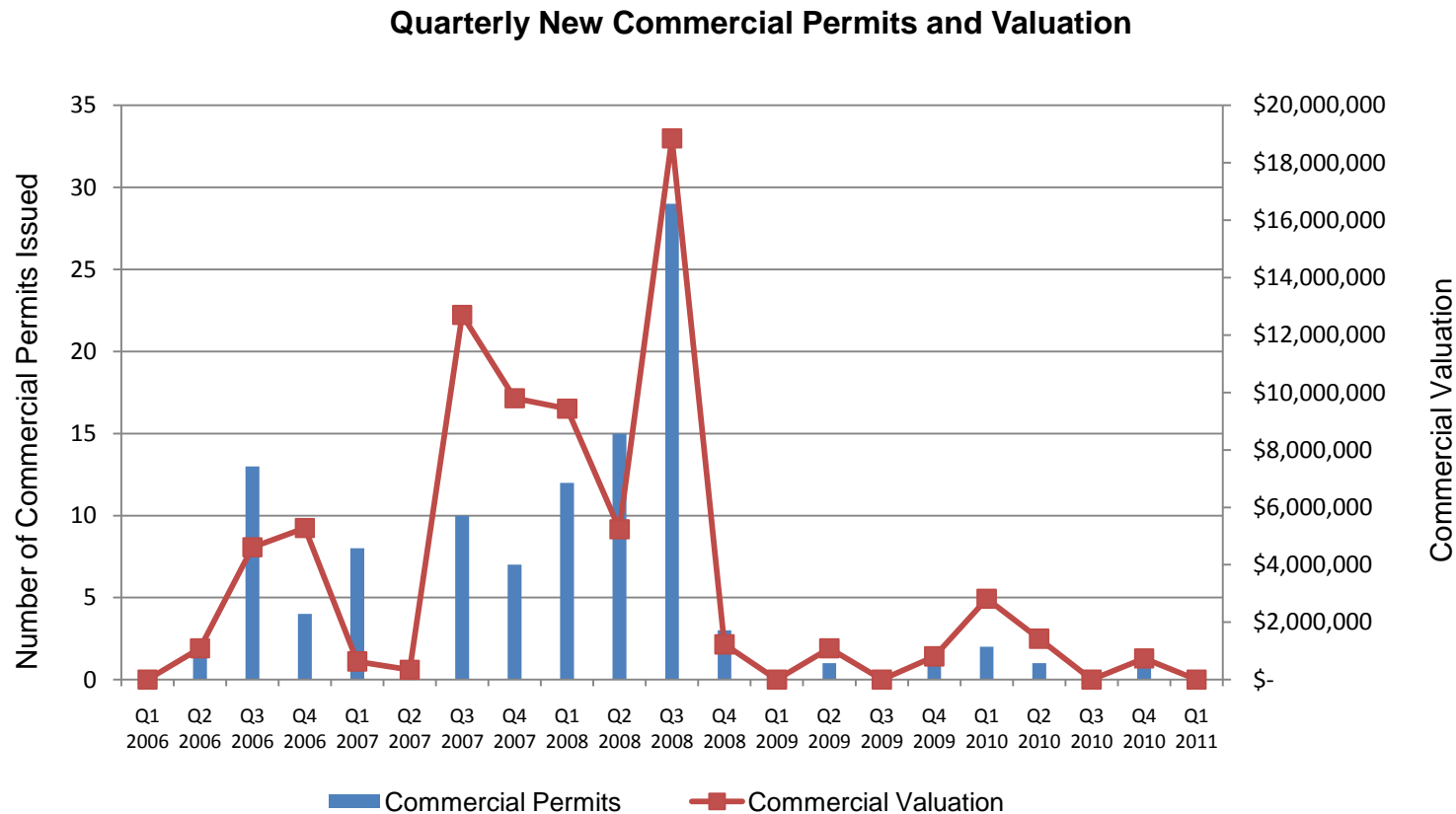
Residential

In first quarter 2011, 17 new single family home building permits were issued which is similar to the number of permits issued in 2010. New residential valuation, however, was higher in first quarter 2011 compared to first quarter 2010 at \$4,018,285, an 8% increase. There were 19 other residential permits issued in first quarter 2011, compared to 32 issued in 2010. The chart below reflects quarterly new residential permits and valuation since 2006. Residential building activity fluctuates from quarter to quarter due to seasonal activity.



Commercial

For first quarter 2011, there were no new commercial permits issued compared to two issued in 2010. There were 38 other commercial permits issued in first quarter 2011, which is an 81% increase compared to first quarter 2010. Total commercial valuation from other commercial permits in 2011 was \$3,998,569. The chart below represents quarterly new commercial permits and new commercial valuation since 2006. Commercial building activity fluctuates from quarter to quarter due to seasonal activity.



Summary

For more information. If you have any questions about this report, please call Jessica Platt, Administrative Services Manager at 755-6702.